SCT SHOPPING CENTERS TODAY Week
ICSC

U.S. shopping center NOI up 3.6 percent in 2012

U.S. shopping centers strengthened their net operating income last year by cutting expenses and growing sales, according to data from ICSC and the National Council of Real Estate Investment Fiduciaries. Overall NOI at U.S. shopping centers grew by some 3.6 percent year on year, according to NCREIF's database of 1,000 retail centers. Income rose 2.3 percent last year versus 2011, and expenses were down by 0.1 percent.

"Retail was the best-performing property type in the NCREIF index for the fourth quarter and the year," said Jeffrey R. Havsy, NCREIF's research director. "The strong returns were driven by improved fundamentals. Both NOI and occupancy improved from 2011 levels."

Fourth-quarter operating income for U.S. shopping centers on a square-foot basis grew by 3.6 percent from the comparable quarter a year ago, while operating expenses increased by 2.4 percent. As a result, NOI per square foot posted a strong 4.3 percent gain from the year-ago quarter, atop a very strong 6.3 percent year-over-year gain in the third quarter.

Regionally, fourth-quarter NOI for the industry was strongest in the East, which saw a year-on-year gain of 8.6 percent, followed by the West, which saw NOI rise by 4.4 percent. NOI for shopping centers in the South rose by a modest 1.7 percent in the fourth quarter, while NOI in the Midwest slipped 1.8 percent relative to a year ago.

Powers centers led the pack, with fourth-quarter NOI growth of 7.7 percent year on year. Meanwhile, fourth-quarter super-regional mall NOI grew by 4.6 percent, and the neighborhood and convenience center sectors both posted NOI growth of 3.8 percent year on year for the quarter. Regional malls posted the smallest fourth-quarter gain, with NOI growing 0.4 percent.

"The U.S. shopping center industry as a whole performed well in 2012, but regional malls and community centers were sector laggards," said Michael P. Niemira, ICSC's chief economist and vice president of research. Niemira says he anticipates continued NOI improvement this year on improved sales.

$52.8 billion in U.S. retail centers traded in 2012: Report

U.S. retail property investment deals rose by 20 percent year on year for 2012, to $52.8 billion, according to Real Capital Analytics. Top-shelf properties in major markets attracted an influx of equity and debt capital as investors gravitated toward the relatively low cap rates available. In fact, investment volume surged 54 percent year on year in the six biggest U.S. markets. Some 4,400 transactions were priced at $10 million or higher. Exactly 117 regional mall properties valued at a combined $24.2 billion traded hands, up 172 percent from 2011. The average price paid for a U.S. mall last year was $237 per square foot, and the average cap rate was 7 percent. For strip centers, the price average was $145 per square foot, and the average cap rate was again 7 percent.

January sales jump despite fiscal 'drag'

U.S. chain-store sales for January grew by 4.5 percent year on year, according to ICSC's index. This is the strongest increase since September 2011. The growth is attributable in part to a hard flu season that drove shoppers into the drugstores. That segment posted a 2.9 percent January sales increase year on year, its largest since August 2011. Department-store

sales rose by 11.4 percent, thanks partly to post-holiday clearance sales.**Macy's** posted an 11.7 percent increase. "Simply put, January was an outstanding month," CEO Terry Lundgren told investors. Other chains said they felt a fiscal drag resulting from higher payroll taxes that caused consumers to pull back. John Cato, CEO of women's apparel chain **Cato**, told investors that his company's 4 percent same-store sales drop was caused by "the timing of tax refunds and the effect of higher payroll taxes." **Target** CEO Gregg W. Steinhafel said customers "face a slow economic recovery and new pressures, including recent payroll tax increases." Target same-store sales grew by 3.1 percent year on year for January. Perhaps offsetting some of the tax increase was a minimum-wage increase in 10 states, which observers estimated would boost pay for 1 million workers directly or indirectly, according to Michael P. Niemira, ICSC's chief economist and vice president of research. ICSC anticipates a February same-store sales increase of 5.5 percent year on year.

Rival bidders agree to split Canadian REIT's properties

A two-month bidding war over the retail portfolio of Toronto-based **Primaris REIT** ended this week with the two top competitors agreeing to split up the properties between themselves in a $2.75 billion deal. **H&R REIT** and a consortium of investors led by**KingSett Capital** offered Primaris shareholders $28.12 per share in cash and stock, beating a friendly $27.44 per share offer from H&R in January and a hostile $26.11 per share offer from the KingSett group in December.

H&R will acquire Primaris' operating platform and 25 of its shopping centers (including Primaris' recently announced acquisition of $378 million worth of retail space in Alberta, Canada) valued at an aggregate $3.1 billion, including debt. H&R says the cap rate on the purchase is 5.6 percent. Meanwhile the KingSett Capital–led consortium, which consists of certain KingSett Capital managed funds, Ontario Pension Board and **RioCan REIT**, will acquire the remaining 18 properties in the Primaris portfolio, which are valued at approximately $1.9 billion, including debt. Primaris shareholders are expected to approve the deal, but if they do not, the firm must pay H&R and KingSett a fee of $100 million. Once the deal closes, RioCan will buy the 453,300-square-foot **Oakville** (Ontario) **Place** and a 50 percent interest in the 721,000-square-foot **Burlington** (Ontario) **Mall** for $362 million.

"We have created a stronger transaction for both H&R and Primaris unit holders," said Tom Hofstedter, chief executive of H&R, in a press release. "With this transaction, H&R will become Canada's largest and leading diversified real estate investment trust, emulating the preferred real estate investment model adopted by large pension plans worldwide."

Dominican Republic a retail magnet, conference hears

The Dominican Republic still offers virgin markets for mall developers and retailers, including sizable pockets within the capital city, said panelists at the ICSC Caribbean Conference this week in San Juan, Puerto Rico. Last year's openings of three major malls in Santo Domingo — **Ágora Mall**, **Galería 360** and **Sambil Santo Domingo —** brought that city's combined shopping center leasable area to nearly 265,700 square meters (about 2.9 million square feet). Certain areas, such as the Sector Bella Vista (population 180,000) and Santo Domingo Norte (population 330,000), are still without a mall.

"Santo Domingo has a great concentration of malls in just one area," said Sarah Viñas, commercial manager of Intercentro Trade Center, a Santo Domingo–based real estate developer. "The untapped sectors of the capital city as well as other regions offer excellent prospects for retail development. We are talking of a market of about 4 million new consumers for malls."

San Pedro de Macorís, population 418,000, one of the Dominican Republic's 31 provinces, boasts strong local street retail, but no malls. This is also the case in La Altagracia province, population 335,677. There are preliminary plans for a mall in the prosperous province of La Romana, which has a population of about 330,600 and some tourism attractions but no shopping centers.

The Dominican Republic's economy grew by nearly 5 percent last year. The country has a population of 10 million that is growing by about 1.6 percent annually.

THE BOTTOM LINE

CBL & Associates posted $99.7 million in fourth-quarter funds from operations, up from $88.7 million a year ago. Net income, meanwhile, was $52.4 million, down from $72.4 million, but same-center net operating income grew by 2.2 percent.

General Growth Properties reported $312 million in fourth-quarter funds from operations, up from $253 million a year ago. The firm posted $32 million in earnings, meanwhile, versus a net loss of $368 million a year ago. Net operating income rose to $585 million for the quarter, from $549 million a year before.

Kimco Realty funds from operations fell in the fourth quarter to $127.2 million from $135.4 million for the previous year's comparable quarter. The firm's earnings rose to $59.2 million, from $31.6 million, while same-property net operating income grew by 3.4 percent. This was the firm's highest same-property NOI increase since the fourth quarter of 2007.

Macerich reported an increase in fourth-quarter funds from operations, to $132.6 million from $118.8 million a year ago. The firm's earnings rose to $174.2 million from $163.1 million a year ago.

Simon Property Group funds from operations grew to $827.4 million in the fourth quarter, from $678.9 million a year before. The firm's net income fell to $315.4 million from $362.9 million a year ago.

TRANSACTIONS

New York City–based private equity fund **Blackstone Group** will buy a majority stake in 40 U.S. shopping centers, totaling 5.7 million square feet, from **UBS AB** property funds for $1.1 billion. **Kimco Realty Corp.**, UBS's joint-venture partner on the properties, will increase its ownership to 33 percent from 18 percent. The venture has about $692 million in debt on the properties.

Toronto-based **Primaris Retail REIT** is expanding its holdings in Alberta with the purchase of nine properties for C$377 million (about on par with the U.S. dollar). This includes two enclosed regional centers — the 539,000-square-foot **Medicine Hat** (Alberta) **Mall** and the 461,000-square-foot **Sherwood Park** (Edmonton) **Mall —** plus five unenclosed strip plazas, one single-tenant retail building, one office building and about 4.5 acres. The sellers are**Sherwood Park Mall Ltd.**, **Markalta Developments Ltd.** and **Sleeping Bay Building Corp.**The cap rate on the deal is 5.76 percent.

Mobile, Ala.–based **Burton Property Group** bought the 360,000-square-foot **Jubilee Square Shopping Center**, in Daphne, Ala., from **L-A Daphne LLC** for $37 million. Tenants there include **Dick's Sporting Goods**, **The Fresh Market** and **Office Depot**. **SRS Real Estate Partners** will handle leasing.

AAG Management, of New York City, sold a 70,000-square-foot grocery-anchored center in Woodcliff Lake, N.J., to a private buyer for $29 million.

RETAILING TODAY

Chipotle Mexican Grill says it plans to open between 165 and 180 restaurants this year, including four internationally. The company opened 183 restaurants last year and now operates about 1,400 worldwide.

CVS Caremark made its first international push by buying Brazil's eighth-largest drugstore chain, **Drogaria Onofre**, which operates 44 stores there. The price was undisclosed.

Louis Vuitton, the world's biggest luxury brand in sales terms, is expanding too quickly and hurting its exclusive image, according to Bernard Arnault, CEO of parent **LVMH**. The chain will be expanding its existing boutiques now, instead of opening new ones, he said. Vuitton currently operates 460 stores across 50 countries, from its Paris home to as far as Mongolia.

Microsoft announced plans to open six stores next year, at **Beachwood** (Ohio) **Place**; **City Creek Center**, in Salt Lake City; **Dadeland Mall**, Miami; **The Shops at La Cantera**, San Antonio; **St. Louis Galleria**; and **Westfield San Francisco Centre**. Four of those stores are former pop-up shops now being made permanent. Microsoft operates about 30 permanent stores in the U.S. and Canada, the first of which opened in 2009.

THE COMMON AREA

Mid-America Real Estate Corp.'s Net Lease Investment Group has compiled a net-lease-data comparison of the top nine U.S. banking chains. "Clients are always wondering how one tenant compares to another and what makes one retailer's cap rate more aggressive than the other," said Tom Fritz, a Mid-America investment broker and co-author of the report. "This study illustrates much more than that, by rating each bank among different categories, such as total deposits, annual NOI, average deposits per branch, and of course, cap rate, to name a few. It literally shows investors where they can get the biggest bank for their buck." Those top nine banks are, in order of credit ranking, US Bancorp, Wells Fargo, Bank of Montreal, JPMorgan Chase, PNC Financial Services Group, Bank of America, KeyCorp, Fifth Third Bancorp and TCF Financial Corp. Download a chart of these results here.

Total U.S. spending on Valentine's Day gifts will hit $18.6 billion this year, according to a National Retail Federation survey of nearly 6,000 consumers. According to the trade group, the typical consumer will spend $130.97 on Valentine's Day gifts, on average, up from $126.03 last year. The survey found that roughly a quarter of the respondents are planning to shop online, up from slightly less than 20 percent last year and the highest number in the survey's 10-year history. Nearly 40 percent said they would buy gifts at discount stores. About 33 percent said they would shop department stores; nearly 23 percent, specialty stores; about 20 percent, flower shops; roughly 11 percent, jewelry stores; about 8 percent, specialty apparel stores; and almost 3 percent will shop by catalog.

REI chief executive **Sally Jewell** has been nominated for U.S. Secretary of the Interior, to replace Ken Salazar.

Sales boomed last year at shopping centers in Argentina, Brazil and Peru. Thirty-six malls in the Greater Buenos Aires area reported a 22.5 percent sales increase, according to government data. In Brazil mall trade group ABRASCE said its 457 malls reported some $60.1 billion last year, up nearly 11 percent from 2011. Sales at the 57 shopping centers in Peru shot up 20 percent last year, reaching $5.3 billion, according to that country's shopping center trade association.

Shopping center landlords from Los Angeles to Hong Kong are investing a lot more money — and more imagination — in their food courts these days. Malls have come a long way from the days when food was seen as a means to prolong the shopping trip, and food court patrons are not just eating to shop anymore. *SCT* takes a culinary journey through some of the world's best food courts. Check out our video report here.